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SENSITIVE
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STATE FOR WHA/CAR (JMACK-WILSON) (VDEPIRRO) (WSMITH)
WHA/EPSC (FCORNEILLE)
EEB/ESC/IFD/EPC (MCMANUS)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW
USTDA FOR NATHAN YOUNGE

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [ENRG](#) [EFIN](#) [EINV](#) [PREL](#) [PINR](#) [SOCI](#) [TRSY](#) [OPIC](#)
IBRD, IMF, XL, JM
SUBJECT: Jamaican Real Estate: Lower Rates May Lift Market

REF: KINGSTON 90

Summary

¶1. (U) The successful completion of the Jamaican Debt Exchange (JDX) program, combined with the Executive Board of the International Monetary Fund (IMF) approving a 27-month Stand-By Arrangement with Jamaica on February 4 for nearly US\$1.27 billion to support the country's balance of payments and economic reforms, appears to be restoring confidence in the Jamaican markets. Already there is a decline in interest rates, and the stock market is springing back to life. Absent any unforeseen shocks or a return to the government's fiscal indiscipline of the past, lower interest rates are likely to lead to a recovery in the real estate sector in 2010. Even before the JDX was announced, plans already were afoot for three new hotel projects in Kingston, not a city that traditionally draws tourists. The interest in Kingston hotel projects appears to be bucking the downward trend over the past 18 months in other areas of residential and commercial real estate. Lower borrowing costs could fuel more construction in resort properties and restart some of projects that stalled with the onset of the global recession. End Summary.

Interest Rates On the Decline?

¶2. (U) Under the successful JDX program, the Government of Jamaica (GOJ) restructured the terms of its domestic debt to allow for longer maturities and lower interest payments (Reftel A). Many of the GOJ's domestic debt obligations were for rates of up to 24 to 28 percent; the newer bond issues will yield about 12.5 percent for investors. While the cost savings of the JDX could be enormous for the GOJ, a significantly beneficial side-effect is likely to be reduced borrowing costs throughout the economy. Anya Levy, the executive director of Valerie Levy and Associates, told reports in an Observer newspaper article dated January 29, that borrowing costs hover around 19 percent at the moment, while mortgage rates are between 13 and 17 percent. With the GOJ's benchmark interest rate declining, the expectation is that private banks and mortgage lenders will follow suit and lower their rates accordingly. Lower interest rates for real-estate developers and lower mortgage rates for homebuyers should stimulate fixed investment in the economy throughout 2010, with significant upside remaining a strong possibility for the real-estate market.

High End, Bucks the Trend

13. (U) Despite an overall slump in both commercial real estate and home prices, new developments are progressing in certain high-end hotel markets. This phenomenon comes amidst a backdrop of dire conditions elsewhere in the economy. Lavish properties have opened in the mountains overlooking Kingston, on the beaches of the north coast, and new hotel projects catering to tourists and business travelers are under development in the heart of Kingston. The investment interest in Kingston is a bit surprising, given that the area already appears saturated with hotel properties for the business traveler and the capital is better known for its high crime rate as a draw for tourists. Regardless, investors who spoke with Emboffs appear highly optimistic about the projects. Plans include a new Marriot hotel, a Sandal's City (part of the Sandal's chain of resorts) and a major renovation of the former Oceana hotel which was converted into a government office building in the 1990s. New plans call for turning the building back into a hotel and merging it with the Jamaica Conference Center.

Arrivals Up, Revenues Down

14. (SBU) Although new arrivals helped the hotel industry remain afloat in 2009, the President of the Jamaica Hotel and Tourist Association (JHTA) Wayne Cummings believes that those tourists are only being lured by deep discounts of 30-65 percent. While this has helped to fill rooms, it results in fewer dollars per tourist actually remaining in Jamaica. Hence, Cummings cautions observers not to equate having strong arrival numbers with the operational health of Jamaica's tourism industry. Cummings projects that total inflows from the tourist sector in 2009 will register at US\$1.62 billion, or roughly \$400 million below last year.

Challenges Remain

15. (U) Despite investment interest in upscale tourist properties, challenges still remain. The Ritz Carlton, one the more premier properties on the North coast, provides a cautionary tale. The Ritz-Carlton Rose Hall laid off eighty-three employees on January 6 and management of other hotels have also told Emboffs that they have had to reduce work hours for many employees. The owner of the property, Rose Hall Resort LP, currently is suing Ritz-Carlton for mismanagement in a federal court in Atlanta, seeking US\$145 million in damages while looking for another management group to operate the 427-room hotel. Virginia-based Salamander Hospitality LLC appears to be the early favorite to take over.

16. (U) Similarly, Sandals Resorts International recently informed Sagicor Life that they would not renew the five-year lease for the Sandals Dunn's River Resort in Ocho Rios. Sagicor Life is a Jamaican corporate giant spanning real-estate, equities, fixed income products, and insurance, that purchased the 256-room property in 1989 and began leasing it to Sandals in 1999. The lease for the hotel is set to expire in May. Sagicor Life now will be forced to join Rose Hall on the list of high-end real-estate owners looking for a new operator amidst a highly competitive tourism market, characterized by glamorous new projects and riddled by the deep discounts needed to fill existing rooms. Meanwhile, Sandals Resorts International reopened their Sandals Whitehouse Hotel in December. Gordon "Butch" Stewart, the President and CEO of Sandals Resorts, had closed the four-year old hotel in August 2009 in response to the slow-down in the economy and to remedy problems plaguing the hotel, which was built as a joint venture with Urban Development Corporation (UDC), an agency of the GOJ.

Sandals did manage to pay the 300 staff who worked at the Whitehouse location half their normal wages during the four and a half months that the hotel was closed.

Comment and Analysis:

¶7. (SBU) Despite wide ranging new activity in luxury hotels and anticipated growth in the wider real-estate market in 2010, the overall state of the economy remains mired in the global recession. There is hope that the JDX and the recent IMF agreement will spark new life into the economy, although the GOJ lacks the luxury of being able to run deficits for investment projects that would help grow the economy. Moreover, officials at the Ministry of Tourism appear grossly unprepared for any potential change in the U.S relationship with Cuba. They do not believe a relaxation of the travel restrictions that currently prevent U.S. citizens from visiting Cuba would have any negative effect on their tourism industry, and they have made no plans to deal with a shortfall in visitors if one were to occur. If the GOJ does find ways to improve unemployment, or if economic conditions worsen after the positive JDX/IMF bump, the GOJ could face worsening joblessness, possibly leading to growing social unrest and worsening crime. If the Jamaican dollar slides, interest rates could climb again, thus diminishing the hopes for future investments. End Comment and Analysis.

Parnell